Department of Finance

2007-03065/

News Release

Immediate release

Ottawa, August 25, 2006
2006-041

Updated Financial Information on Air Transportation Security

The Department of Finance today released an update on revenues from the Air Travellers Security Charge (ATSC) and expenses for air travel security to the end of fiscal year 2006–07, as well as the most recent audit report from the Auditor General of Canada.

The update sets out actual amounts recorded to date, and new estimates. While a surplus was recorded from 2002–03 through 2004–05, expenses for air travel security are now forecast to exceed ATSC revenues by $60 million in 2005–06 and by $50 million in 2006–07. These deficits are expected to reduce the accumulated surplus to $325 million by the end of 2006–07, which will be invested in Canada's air transportation security infrastructure.

This accumulated surplus was taken into account when Budget 2006 announced new funding of $133 million over two years for the Canadian Air Transport Security Authority to address increased passenger flows and related operating and capital pressures. The remaining amount, forecast at $165 million at the end of 2007–08, will be considered as part of the funding framework for Canada's air transportation security infrastructure in coming years, when higher operating and depreciation expenses are expected to reduce the forecast surplus.

The Government committed in previous budgets to review the ATSC over time and to provide audited financial information on the balance between revenues and expenses. The ATSC was reviewed and rates were reduced three times—in Budgets 2003, 2004 and 2005. The Government will continue to monitor ATSC revenues and expenses for air travel security and will provide updated analysis when there are events of material importance. The Auditor General of Canada will continue to undertake audits for each fiscal year through 2006–07, and these audits will be made public.

The update, the most recent audit report and audited financial statements for 2003–04, and a backgrounder on air transportation security in Canada can be viewed on the Department of Finance website at www.fin.gc.ca. Printed copies are available on request.

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Backgrounder
Air Transportation Security

Since 2001, the Government of Canada has committed over $2 billion to a number of initiatives to make air travel more secure. Initial steps focused on: the creation of the Canadian Air Transport Security Authority (CATSA), which is responsible for screening over 35 million passengers and 65 million pieces of luggage annually; the development of an enhanced regulatory regime, which included new requirements for screening passengers and their belongings; further restrictions on items allowed on aircraft; the screening of non-passengers (e.g. airline personnel, airport employees); and an increased policing presence at key airports. Additional security inspectors were put in place to increase the inspection, monitoring and testing of the air transport security system and to oversee the enhanced security requirements nationally. Funding was also provided to help air carriers install reinforced cockpit doors on about 486 passenger aircraft. In addition, the Canadian Air Carrier Protective Program was established to place RCMP officers on selected domestic and international flights. Furthermore, improvements were made to the Transportation Security Clearance Program (e.g. enhanced security background checks and automation of fingerprint processing): in 2005–06, about 35,000 clearances were processed.

More recently, through the efforts of CATSA, the Government of Canada has successfully deployed advanced explosives detection systems at 89 airports across the country to ensure 100 per cent screening of all luggage at these designated airports. Finally, the development and deployment of an improved Restricted Area Identification Card continues: it will be the world's first dual biometric identification system for airport workers at access points to the secure side of airports.

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Update on Air Travellers Security Charge Revenues and Expenses for Air Travel Security

Introduction

This document provides updated information on revenues from the Air Travellers Security Charge and expenses for the enhanced air travel security system to the end of 2006–07, the original planning period that was established in Budget 2001. It also discusses the new funding for air travel security that was announced in Budget 2006.

Background

Budget 2001 allocated $2.2 billion through 2006–07 to make air travel more secure in accordance with new national standards, including the creation of the Canadian Air Transport Security Authority (CATSA) to consolidate the delivery of key aviation security services. To provide funding for the enhanced air travel security system, the Air Travellers Security Charge (ATSC or "charge") was introduced, effective April 1, 2002.

Budget 2001 included a commitment that the charge would be reviewed over time to ensure that ATSC revenues remain in line with costs for air travel security. The charge was reviewed, and rates reduced, in Budgets 2003, 2004 and 2005. In total, ATSC rates were reduced to $10 from $24 for round-trip domestic air travel, to $8.50 from $12 for transborder air travel and to $17 from $24 for other international air travel. These reductions were made possible primarily by the faster than anticipated recovery of air travel and the Government's adoption of full accrual accounting.

Update on Revenues and Expenses Through 2006–07

ATSC revenues and expenses for the enhanced air travel security system have now been updated to include actual amounts recorded to date and new estimates through fiscal year 2006–07.

Revenues and expenses to the end of 2003–04 reflect audited amounts as per the audit report from the Auditor General of Canada. For 2004–05, revenues and expenses are based on information in the Public Accounts of Canada and CATSA's 2005 Annual Report. For 2005–06 and 2006–07, revenue estimates are based on current ATSC collections and the December 2005 forecast from Transport Canada for growth of air passenger traffic, while planned expenses reflect the funding framework that was in place prior to Budget 2006.

The net result, as shown in Table 1, is that ATSC revenues are forecast to exceed expenses for air travel security by $325 million to the end of 2006–07, the original planning period set out in Budget 2001. Revenues and expenses are stated on the basis of full accrual accounting, including the actual depreciation expense associated with the deployment of capital assets by CATSA.

TABLE 1
ATSC Revenues and Expenses for Air Travel Security
Original Planning Period from Budget 2001
Full Accrual Accounting
in millions of dollars

		Audited			Forecast		Total
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2001-07
Revenues	**0**	**445**	**420**	**390**	**350**	**365**	**1,970**
Expenses	**40**	**210**	**260**	**310**	**410**	**415**	**1,645**
Operating	40	205	250	280	325	320	1,420
Depreciation	0	5	10	30	85	95	225
Difference	**-40**	**235**	**160**	**80**	**-60**	**-50**	**325**
Cumulative	-40	195	355	435	375	325	

Note: Amounts rounded to nearest $5 million.

Balancing Revenues and Expenses

Total expenses for air travel security have increased from $40 million incurred in the latter half of 2001–02 to a forecast level of $415 million for 2006–07. This ramp-up of operating and depreciation expenses reflects the fact that since assuming responsibility for key aviation security services on April 1, 2002, CATSA has been increasing its operating capacity and gradually deploying capital equipment at airports across Canada.

Over the same period, Budgets 2003 through 2005 provided for ATSC rate reductions on the basis of an average annual depreciation expense for capital equipment. This approach was undertaken with a view to ensuring that ATSC revenues would be broadly consistent, overall, with ongoing costs for the mature air travel security system that was announced in Budget 2001.

As such, the forecast surplus of $325 million is a one-time occurrence that is linked to the ramp-up of air travel security expenses over prior fiscal years, and does not provide a sustainable basis for reducing ATSC rates.

However, to ensure that revenues collected for air travel security are used for that purpose, the forecast surplus will be taken into account when establishing the funding framework for air travel security for coming years. This approach provides some latitude to address cost pressures for the enhanced air travel security system, while maintaining ATSC rates at current levels.

New Funding for Air Travel Security

Against this backdrop, Budget 2006 announced new funding of $133 million for air travel security over the next two fiscal years. These amounts address important cost pressures identified by CATSA, including increased operating expenses related to passenger screening, as well as higher depreciation expenses associated with the accelerated deployment of new capital assets and to accommodate flight terminal expansion projects at Canadian airports. The anticipated fiscal impact through 2007–08 is set out in Table 2.

TABLE 2
ATSC Revenues and Expenses for Air Travel Security
Impact of New Funding
Full Accrual Accounting
in millions of dollars

	Audited			Forecast		New Funding		Total
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2001-08
Revenues	**0**	**445**	**420**	**390**	**350**	**365**	**380**	**2,350**
Expenses	**40**	**210**	**260**	**310**	**410**	**465**	**490**	**2,185**
Operating	40	205	250	280	325	365	380	1,845
Depreciation	0	5	10	30	85	100	110	340
Difference	**-40**	**235**	**160**	**80**	**-60**	**-100**	**-110**	**165**
Cumulative	-40	195	355	435	375	275	165	

Note: Amounts rounded to nearest $5 million.

Looking Ahead

The fiscal impact of the new funding has been considered within the context of the forecast surplus from the original planning period, with the result that ATSC rates need not be adjusted at the current time. To the extent that higher operating and depreciation expenses from 2007–08 are continued in future fiscal years, the remaining surplus of $165 million will be reduced.

In this regard, CATSA's future funding requirements will be given further consideration based on the results of the Canadian Air Transport Security Authority Act review, currently underway and required to be completed no later than March 31, 2007. The review is the responsibility of the Minister of Transport, Infrastructure and Communities. Additional information on this topic is available on the Transport Canada website at www.tc.gc.ca.

The Government will continue to monitor ATSC revenues and expenses for the enhanced air travel security system and will provide updated analysis of material changes. The Auditor General of Canada will continue to undertake annual audits through 2006–07, and the results of these audits will be released as they become available.